

City of Fremont
Newaygo County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2008

City of Fremont

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This discussion and analysis is intended to serve as an introduction to the City of Fremont's (City) basic financial statements. This report consists of a series of financial statements for the City as of June 30, 2008. The City's basic financial statements are comprised of three components:

1. Governmental-wide financial statements
2. Fund financial statements
3. Notes to financial statements

The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City operations in more detail than the government-wide financial statements.

This report also contains other required supplementary information in addition to the basic financial statements themselves.

FINANCIAL HIGHLIGHTS

- At the close of the fiscal year, the City of Fremont had total assets of \$32,834,596 and total liabilities of \$1,995,970 leaving net assets of \$30,838,626, an increase of 1.8% in the City's overall net assets.
- Of the total \$30,838,626 in net assets, the City may use \$7,191,174 (unrestricted net assets) to meet the ongoing obligations to citizens and creditors.
- Total revenues, including all program and general revenues, were \$5,888,917, comprised of governmental revenues of \$4,565,747 and business-type revenues of \$1,323,170. Revenues for the component units totaled \$592,039.
- Total expenses for all of the City's programs were \$5,352,165. Of that total, the governmental expenses were \$4,308,842 and the business-type expenses were \$1,043,323. Expenses for the component units were \$601,128.
- The City was able to maintain the number, type and current levels of City services to its citizens with no increase in its property tax levy, even in the face of a 33% cut in state-shared revenues over the past few years and increasing operating costs.
- Many municipal government financial advisors recommend maintaining unrestricted fund balances at approximately 25% of annual operating costs to allow for sufficient working capital and emergency funding throughout the upcoming year. The City of Fremont's ending General Fund fund balance for the fiscal year is approximately 45% of projected costs for Fiscal Year 2008/09.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances. The statements are similar to those of a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. The City reports all changes in net assets when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide statements mentioned above distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business-type activities). The government activities of the City include general government, public safety, public works, community and economic development, and cultural and recreational activities. The business-type activities of the City include water distribution and sanitary sewer services.

The Statement of Net Assets and the Statement of Activities include not only the City of Fremont itself (known as the primary government), but also discretely presented component units. Component units are separate legal entities for which the City has some level of financial accountability. The City has three component units shown in a separate column on the Statement of Net Assets and Statement of Activities: the Downtown Development Authority (DDA), the Local Development Finance Authority (LDFA), and the Fremont Community Joint Planning Commission (Commission). The component units exist primarily for the issuance and repayment of debt to finance capital projects in specific commercial and industrial areas of the City.

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources, uses and balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison.

The City maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General, Major Streets, Local Improvement and Capital Projects funds, which are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary Funds

The City of Fremont has two enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution and sanitary sewer operations. Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the City's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budgetary information as it relates to the actual expenditures for the General Fund.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information on budgetary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Recall that the statement of net assets provides the perspective of the City as a whole. The following table provides a summary of the City's net assets. As of June 30, 2008 the City's net assets from governmental activities totaled \$17,410,444 and \$13,428,182 from business-type activities, for a government-wide net asset total of \$30,838,626.

In examining the composition of net assets, the reader should note that the amount of governmental activities invested in capital assets (i.e., streets, buildings, furniture and equipment, etc.) are used to provide services to the residents, and are not available to pay salaries or operational expenses or to fund capital projects.

Total governmental assets and liabilities decreased by \$153,430 and \$333,885, respectively, because a number of open construction liabilities in the prior year were paid off in the current year.

Business-type activities total assets increased, reflecting the increase in unrestricted net assets, due to the City holding off on major construction projects until the following construction season. Consequently, capital assets and net assets invested in capital assets, net of related debt, decreased because current year depreciation exceeded capital additions. The business-type activities liabilities decreased, with no long-term debt other than compensated absences existing.

NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current assets and						
other assets	\$ 4,777,750	\$ 5,446,767	\$ 4,491,693	\$ 3,877,008	\$ 9,269,443	\$ 9,323,775
Capital assets	14,601,895	14,086,308	8,963,258	9,244,957	23,565,153	23,331,265
Total assets	19,379,645	19,533,075	13,454,951	13,121,965	32,834,596	32,655,040
Current liabilities	302,506	568,154	11,000	34,311	313,506	602,465
Noncurrent liabilities	1,666,695	1,734,932	15,769	15,769	1,682,464	1,750,701
Total liabilities	1,969,201	2,303,086	26,769	50,080	1,995,970	2,353,166
Net assets						
Invested in capital						
assets, net of						
related debt	13,261,243	13,060,713	8,963,258	9,244,957	22,224,501	22,305,670
Restricted	1,422,951	1,214,721	-	-	1,422,951	1,214,721
Unrestricted	2,726,250	2,954,555	4,464,924	3,826,928	7,191,174	6,781,483
Total net assets	\$ 17,410,444	\$ 17,229,989	\$ 13,428,182	\$ 13,071,885	\$ 30,838,626	\$ 30,301,874

The results of this year's operations for the City as a whole are reported in the statement of activities, which shows the changes in net assets.

CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues						
Charges for services	\$ 751,836	\$ 832,138	\$ 1,183,178	\$ 1,257,826	\$ 1,935,014	\$ 2,089,964
Operating grants and contributions	441,164	446,189	-	-	441,164	446,189
Capital grants and contributions	627,426	687,431	2,100	2,100	629,526	689,531
General revenues						
Property taxes	2,074,147	2,152,128	-	-	2,074,147	2,152,128
Franchise fees	35,588	36,972	-	-	35,588	36,972
Grants and contributions not restricted	408,560	408,610	-	-	408,560	408,610
Unrestricted investment earnings	199,784	264,699	137,892	120,470	337,676	385,169
Miscellaneous	7,242	3,765	-	-	7,242	3,765
Gain on sale of capital assets	20,000	28,683	-	-	20,000	28,683
Total revenues	4,565,747	4,860,615	1,323,170	1,380,396	5,888,917	6,241,011
Expenses:						
General government	908,266	774,365	-	-	908,266	774,365
Public safety	1,200,518	1,194,744	-	-	1,200,518	1,194,744
Public works	1,662,738	1,533,330	-	-	1,662,738	1,533,330
Community and economic development	248,872	125,994	-	-	248,872	125,994
Culture and recreation	217,316	206,571	-	-	217,316	206,571
Interest on long term debt	71,132	53,272	-	-	71,132	53,272
Sewer Fund	-	-	577,642	579,213	577,642	579,213
Water Fund	-	-	465,681	447,108	465,681	447,108
Total expenses	4,308,842	3,888,276	1,043,323	1,026,321	5,352,165	4,914,597
Change in net assets before transfers	256,905	972,339	279,847	354,075	536,752	1,326,414
Transfers	(76,450)	(61,357)	76,450	61,357	-	-
Change in net assets	180,455	910,982	356,297	415,432	536,752	1,326,414
Net assets - Beginning	17,229,989	16,319,007	13,071,885	12,656,453	30,301,874	28,975,460
Net assets - Ending	\$ 17,410,444	\$ 17,229,989	\$ 13,428,182	\$ 13,071,885	\$ 30,838,626	\$ 30,301,874

Governmental Activities

- Overall operating revenues decreased more than \$294,000, while operating expenses increased by more than \$420,000, causing a net decrease in change in net assets before transfers of \$715,434.
- Property tax revenues decreased slightly due to higher TIF captures from the DDA and LDFA projects. The slow economy also continues to create a negative impact because of the limits placed on the City by the “Headlee” and “Proposal A” Amendments to the State Constitution. The City’s millage rate remained at 14.0 mills, where it has been for the past ten years.
- Unfortunately, interest rates fell during the year, causing investment earnings to fall more than \$64,000 from last fiscal year, a 24.5% decrease. Many projects were completed during the year, leaving fewer funds to invest.
- Expenses increased in all areas by a net 10.8%, using some of the net asset reserves for the governmental activities as a whole.

Business-Type Activities

- With major construction projects being delayed during fiscal year ending June 30, 2008, business-type activities unrestricted net assets increased by \$638,996 or 16.7%.
- Both revenues and expenditures saw little change throughout the year, less than 5%.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As stated earlier in this Management's Discussion and Analysis, the City of Fremont uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances in spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2008 fiscal year, the governmental funds reported a combined fund balance of \$3,863,090. Of this number, \$3,013,246 represents the unreserved fund balance, comprised of \$1,419,217 in the General Fund and \$1,594,029 in other governmental funds. It is necessary to further distinguish between unreserved and reserved fund balance. The unreserved balance represents what is available for spending at the City’s discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to advances of \$48,154, perpetual care of \$304,221, debt service of \$3,402, capital projects of \$374,632, and other reservations of \$119,435.

The General Fund is the chief operating fund of the City. The General Fund pays for administration, public safety, public works, elections, legal, recreation, garbage collection, boards and commissions and other minor functions. The General Fund ended the year with a fund balance of \$1,538,652, an \$116,225 decrease from fiscal year 2007. The unreserved fund balance of the General Fund was \$1,419,217. The health of the General Fund may be measured by the ratio of unreserved General Fund balance to annual General Fund expenditures. Unreserved fund balance represents 42% of the General Fund expenditures.

General Fund revenues were less than expenditures by \$97,591 before transfers. After transfers, the net change in fund balance was a decrease of \$116,225. Combined with a beginning fund balance of \$1,654,877, the General Fund had an ending fund balance of \$1,538,652. Overall and in comparison to the previous year, General Fund revenues decreased by \$191,187 and expenditures increased by \$435,364. The decrease in revenues is principally from property taxes, due to more captures from component units, and investment earnings, due to lower cash balances and rates of return and the increase in expenditures is due to more spending in capital expenditure items within the fund.

Although state shared revenues (gas and weight tax, etc.) remained stagnant, both Major Streets and Local Streets funds financed reconstruction and resurfacing projects that were needed.

The City continues to help fund special assessment projects through the Local Improvement Fund, a portion of which is later assessed back to property owners benefiting from the projects.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the governmental financial statements, but in more detail. For the year ended June 30, 2008, net assets of the Sewer Fund increased by \$16,285 and net assets of the Water Fund increased by \$338,477.

Although the Sewer Fund's change in net assets remained relatively flat due to depreciation expense, the Fund remains healthy as shown on the Statement of Cash Flows. As this statement indicates, sewer operations generated \$135,826 in cash flow, leaving available cash and investments at year end of \$1,692,162.

High depreciation expense in the Sewer Fund is due primarily to Gerber Products Company's food processing wastewater irrigation system. The City coordinated a Community Development Block Grant (CDBG) through the State of Michigan in 1996-97 to help replace key components of Gerber's existing food production wastewater treatment system. The City continues to own the system but leases it to Gerber, which is responsible for all operation, maintenance, repair and replacement costs.

Budget Analysis – General Fund

At various times throughout any budget year, budget amendments are needed to reflect changing financial conditions and changes to financial policy.

The most significant of this year's budget amendments were:

- State intergovernmental revenues were increased by \$30,000, because state shared revenues were higher than originally expected.
- Police Department salaries were reduced by \$10,000 and Public Works increase by the same, to reflect a shift in priorities during the year.
- Capital outlay expenditures were amended from \$75,000 up to \$372,165 to accommodate the roof repairs to the municipal building and planned street reconstruction projects. Spring street reconstruction bids submitted were much higher than anticipated during the prior year budget process.
- Transfers out were amended from \$101,946 down to \$64,550, whereas some projects were delayed until the next fiscal year.

As a result of unexpected changes in revenues and expenditures in the General Fund, the City has variations between budgeted items and actual. Property tax revenue was lower than the final budget due to Michigan Tax Tribunal cases and bankruptcy court orders favoring petitions requests for lower taxable valuations. Investment earnings revenue was lower than the final budget because interest rates fell and remained low for the entire fiscal year. Executive expenditures exceeded the final budget because of an unexpected termination, triggering an employment contract final severance payout. Fire Department expenditures were lower than the final budget due to a lower turnout in paid per call staff on emergency fire/rescue runs. As noted above, capital outlay expenditures were less than budgeted due to delay and rollover of projects into the next fiscal year. Transfers in were also lower than budgeted because of those project delays.

Budget Analysis – Other Funds

- An amendment to reflect a \$1.5 Million grant award for the construction of a parallel taxiway for the north/south runway at Fremont Municipal Airport was made.
- The City purchased a downtown building for \$100,000, hoping to keep the building from falling in disrepair. Some modifications were made to prepare it for resale and promote economic development in the Downtown.
- The City also purchased a home on 4.5 acres of land for \$90,000, adding additional woods and wetland to Branstrom Park.
- A \$34,610 amendment was needed to repair a sanitary sewer line cave-in at the Wastewater Lagoon Treatment facility.
- The City expended an additional \$21,000 on fuel purchases for municipal vehicle operations.

Capital Asset Administration

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2008 totaled \$23,565,153 (net of accumulated depreciation.) Investments in capital assets include land and land improvements, buildings and improvements, infrastructure (including utility systems), furniture and equipment.

Major projects included construction of a taxiway for the north/south runway at the airport, major insulation/ventilation modifications to the municipal building roof, finalization of a complete reconstruction of the northeast Downtown block including parking, alleys, sidewalks and landscaping and installation of the new Fremont Market Place pavilion. Additional information on capital assets can be found in Note D of the Notes to Financial Statements.

Debt Administration

As of June 30, 2008, the City had outstanding long-term liabilities of \$1,861,464 consisting of a capital improvement bond and compensated absences. The only change in long-term liabilities was scheduled payments of principal.

There is no outstanding long-term debt in any of the City's discretely presented component units.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The general operating budget for fiscal year 2008-2009 is based on the continuation of the existing 14 mill property tax levy for the last nine years. The City's Charter permits a maximum tax levy of 20 mills for general operating purposes, but the City has been able to keep its levy at this relatively low level since formation of the Fremont Area District Library. If needed, an additional 6 mills (less a small Headlee millage rollback) could generate an additional estimated \$700,000 for general operating purposes.

Property tax revenue increases are greatly influenced by the 1994 Amendment to the State Constitution commonly referred to as "Proposal A." The statewide tax reform amendment limits the growth in "taxable value" on any individual property to the lesser of inflation or five percent (5%). Because some properties may increase in value by less than inflation, the mathematical result of this is that the total taxable value may grow at a rate less than inflation. Property taxes are based on this artificially capped "taxable value" until such time as the property is sold. Then, the taxable value is uncapped and increases to match the "assessed value," which by law must represent 50% of the estimated "true cash value" of the property. Thus, taxing units will continue to capture taxes on a less than value rate until such time all properties sell or legislation is changed.

The City has responded to the economic downturn and pressure on revenues by trying to keep program expenses constant and increasing some user fees. The budget for fiscal year 2008-2009 reflects expenditure reductions in several departments.

The General Fund budget for fiscal year 2008-2009 decreased by \$52,000 compared to the amended budget for expenditures for the year ended June 30, 2008. There are no plans to decrease the General Fund fund balance next year, despite continuing transfers to the Downtown Development Authority Fund in the amount of \$40,000 for administration of the Downtown Rental Rehab and Façade Renovation programs, \$337,400 to the Local Street Fund for 50% of Local Street Fund construction projects, and \$45,850 to the Capital Projects Fund for various airport projects.

For the City's business-type activities, the City has budgeted to expend accumulated resources of \$1,453,000 to fund many of its water and sewer distribution/collection line projects, some being projects that were delayed until the new fiscal year. The budget fiscal year 2008-2009 holds water and sanitary sewer rates constant, with a planned rate study to possibly fund future system expansions. The Water Fund budget includes \$1,520,000 in capital construction and the Sewer Fund budget includes \$161,750 in capital construction.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, residents, voters, customers and investors with a general overview of the City's finances as well as to depict the City's accountability for the money it receives and spends. If you have questions about this report or need additional information, please contact Finance Director/City Clerk Todd Blake at the City of Fremont, 101 E. Main Street, Fremont, MI 49412 or by phone at 231-924-2101 or by email at tblake@cityoffremont.net.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

October 20, 2008

City Council
City of Fremont
Fremont, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fremont as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Fremont's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fremont, as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The managements' discussion and analysis and budgetary comparison information on pages i - ix and 32 - 35, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fremont's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



City of Fremont
STATEMENT OF NET ASSETS
June 30, 2008

	ASSETS			
	Governmental activities	Business-type activities	Total	Component units
CURRENT ASSETS				
Cash and investments	\$ 4,076,069	\$ 4,127,547	\$ 8,203,616	\$ 145,093
Receivables	114,337	340,043	454,380	-
Due from other governmental units	267,240	-	267,240	60,975
Internal balances	(24,103)	24,103	-	-
Total current assets	4,433,543	4,491,693	8,925,236	206,068
NONCURRENT ASSETS				
Restricted assets	232,813	-	232,813	-
Capital assets, net				
Nondepreciable	3,502,588	240,698	3,743,286	-
Depreciable	11,099,307	8,722,560	19,821,867	-
Bond issue costs, net	29,854	-	29,854	-
Special assessments receivable	81,540	-	81,540	-
Total noncurrent assets	14,946,102	8,963,258	23,909,360	-
Total assets	19,379,645	13,454,951	32,834,596	206,068
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	113,133	-	113,133	17,686
Deferred revenue	21,373	-	21,373	-
Bonds and other obligations, due within one year	168,000	11,000	179,000	-
Total current liabilities	302,506	11,000	313,506	17,686
NONCURRENT LIABILITIES				
Bonds and other obligations, less amounts due within one year	1,666,695	15,769	1,682,464	-
Total liabilities	1,969,201	26,769	1,995,970	17,686
NET ASSETS				
Invested in capital assets, net of related debt	13,261,243	8,963,258	22,224,501	-
Restricted for:				
Streets and highways	999,295	-	999,295	-
Perpetual care - nonexpendable	304,221	-	304,221	-
Others	119,435	-	119,435	-
Unrestricted	2,726,250	4,464,924	7,191,174	188,382
Total net assets	\$ 17,410,444	\$ 13,428,182	\$ 30,838,626	\$ 188,382

The accompanying notes are an integral part of this statement.

City of Fremont
STATEMENT OF ACTIVITIES
For the year ended June 30, 2008

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Primary Government		Total	Component units
					Governmental activities	Business-type activities		
Primary government								
Governmental activities								
General government	\$ 908,266	\$ 86,298	\$ 31,514	\$ -	\$ (790,454)	\$ -	\$ (790,454)	\$ -
Public safety	1,200,518	210,460	15,513	1,200	(973,345)	-	(973,345)	-
Public works	1,662,738	350,417	367,088	588,226	(357,007)	-	(357,007)	-
Community and economic development	248,872	-	-	38,000	(210,872)	-	(210,872)	-
Culture and recreation	217,316	104,661	27,049	-	(85,606)	-	(85,606)	-
Interest on long-term debt	71,132	-	-	-	(71,132)	-	(71,132)	-
Total governmental activities	4,308,842	751,836	441,164	627,426	(2,488,416)	-	(2,488,416)	-
Business-type activities								
Sewer	577,642	490,035	-	-	-	(87,607)	(87,607)	-
Water	465,681	693,143	-	2,100	-	229,562	229,562	-
Total business-type activities	1,043,323	1,183,178	-	2,100	-	141,955	141,955	-
Total primary government	\$ 5,352,165	\$ 1,935,014	\$ 441,164	\$ 629,526	(2,488,416)	141,955	(2,346,461)	-
Component units								
Downtown Development Authority	\$ 446,193	\$ 13,465	\$ 261,634	\$ -	-	-	-	(171,094)
Local Development Finance Authority	91,500	-	-	-	-	-	-	(91,500)
Fremont Community Joint Planning Commission	63,435	-	70,187	-	-	-	-	6,752
Total component units	\$ 601,128	\$ 13,465	\$ 331,821	\$ -	-	-	-	(255,842)
General revenues								
Property taxes					2,074,147	-	2,074,147	236,735
Franchise fees					35,588	-	35,588	-
Grants and contributions not restricted to specific programs					408,560	-	408,560	-
Unrestricted investment earnings					199,784	137,892	337,676	6,054
Miscellaneous					7,242	-	7,242	32
Gain on sale of capital assets					20,000	-	20,000	3,932
Transfers					(76,450)	76,450	-	-
Total general revenues and transfers					2,668,871	214,342	2,883,213	246,753
Change in net assets					180,455	356,297	536,752	(9,089)
Net assets at July 1, 2007					17,229,989	13,071,885	30,301,874	197,471
Net assets at June 30, 2008					\$ 17,410,444	\$ 13,428,182	\$ 30,838,626	\$ 188,382

The accompanying notes are an integral part of this statement.

City of Fremont
BALANCE SHEET
Governmental Funds
June 30, 2008

	General Fund	Major Streets Fund	Local Improvement Fund	Capital Projects Fund	Other governmental funds	Total governmental funds
ASSETS						
Cash and investments	\$ 1,409,668	\$ 751,065	\$ 592,356	\$ 379,966	\$ 493,884	\$ 3,626,939
Receivables						
Accounts	93,318	-	-	-	-	93,318
Special assessments	-	-	102,559	-	-	102,559
Due from other governmental units	130,077	36,206	-	72,815	28,141	267,239
Advances to other funds	-	-	48,154	-	-	48,154
Total assets	<u>\$ 1,633,063</u>	<u>\$ 787,271</u>	<u>\$ 743,069</u>	<u>\$ 452,781</u>	<u>\$ 522,025</u>	<u>\$ 4,138,209</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 24,884	\$ -	\$ -	\$ 78,149	\$ -	\$ 103,033
Deferred revenue	21,373	-	102,559	-	-	123,932
Advances from other funds	<u>48,154</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>48,154</u>
Total liabilities	94,411	-	102,559	78,149	-	275,119
Fund balances						
Reserved for:						
Advances	-	-	48,154	-	-	48,154
Debt service	-	-	-	-	3,402	3,402
Capital projects	-	-	-	374,632	-	374,632
Perpetual care	-	-	-	-	304,221	304,221
Other	119,435	-	-	-	-	119,435
Unreserved						
Undesignated						
General Fund	1,419,217	-	-	-	-	1,419,217
Special revenue funds	<u>-</u>	<u>787,271</u>	<u>592,356</u>	<u>-</u>	<u>214,402</u>	<u>1,594,029</u>
Total fund balances	<u>1,538,652</u>	<u>787,271</u>	<u>640,510</u>	<u>374,632</u>	<u>522,025</u>	<u>3,863,090</u>
Total liabilities and fund balances	<u>\$ 1,633,063</u>	<u>\$ 787,271</u>	<u>\$ 743,069</u>	<u>\$ 452,781</u>	<u>\$ 522,025</u>	<u>\$ 4,138,209</u>

The accompanying notes are an integral part of this statement.

City of Fremont
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2008

Total fund balance—governmental funds	\$	3,863,090
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources and
are not reported in the governmental funds.

Cost of capital assets	\$ 21,585,418	
Accumulated depreciation	<u>(7,916,377)</u>	13,669,041

Bond issuance costs are not capitalized and amortized in the governmental funds.

Bond issuance costs	35,114	
Accumulated amortization	<u>(5,260)</u>	29,854

Accrued interest in governmental activities is not reported in the governmental funds.		(10,100)
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Special assessment revenue is not recognized until it is receivable in the current period and, therefore, is shown as deferred revenue in the governmental funds.		102,559
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Long-term liabilities in governmental activities are not due and payable in the
current period and are not reported in the governmental funds.

Bonds and notes payable	(1,603,320)	
Compensated absences	<u>(231,375)</u>	(1,834,695)

Internal service funds are used by management to charge the costs of certain activities to
individual funds. The assets and liabilities of the internal service funds are reported with
governmental activities in the Statement of Net Assets.

		<u>1,590,695</u>
Net assets of governmental activities in the Statement of Net Assets	\$	<u><u>17,410,444</u></u>

The accompanying notes are an integral part of this statement.

City of Fremont
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended June 30, 2008

	General Fund	Major Streets Fund	Local Improvement Fund	Capital Projects Fund	Other governmental funds	Total governmental funds
REVENUES						
Property taxes	\$ 1,980,882	\$ -	\$ -	\$ -	\$ -	\$ 1,980,882
Licenses and permits	40,318	-	-	-	-	40,318
Intergovernmental revenues						
Federal	-	-	-	80,000	-	80,000
State	416,075	293,884	-	194,815	98,216	1,002,990
Local	30,000	-	-	155,204	205,049	390,253
Charges for services	504,586	-	-	-	7,935	512,521
Fines and forfeitures	28,973	-	-	-	-	28,973
Investment earnings	96,059	26,102	34,177	37,385	18,169	211,892
Other	188,881	45,873	49,429	2,893	-	287,076
Total revenues	3,285,774	365,859	83,606	470,297	329,369	4,534,905
EXPENDITURES						
Current						
General government	639,467	-	-	-	-	639,467
Public safety	881,499	-	-	-	-	881,499
Public works	564,461	154,711	-	3,000	84,107	806,279
Community and economic development	105,581	-	13,465	28,775	69,283	217,104
Culture and recreation	117,541	-	-	6,952	-	124,493
Other governmental functions	720,181	-	-	-	-	720,181
Debt service						
Principal	-	-	-	-	75,000	75,000
Interest and fees	2,960	-	-	-	62,968	65,928
Capital outlay	351,675	-	-	1,058,878	-	1,410,553
Total expenditures	3,383,365	154,711	13,465	1,097,605	291,358	4,940,504
Excess of revenues over (under) expenditures	(97,591)	211,148	70,141	(627,308)	38,011	(405,599)
OTHER FINANCING SOURCES (USES)						
Transfers in	45,916	-	-	115,100	101,050	262,066
Transfers out	(64,550)	(92,600)	(84,192)	-	(97,174)	(338,516)
Total other financing sources (uses)	(18,634)	(92,600)	(84,192)	115,100	3,876	(76,450)
Net change in fund balances	(116,225)	118,548	(14,051)	(512,208)	41,887	(482,049)
Fund balances at July 1, 2007	1,654,877	668,723	654,561	886,840	480,138	4,345,139
Fund balances at June 30, 2008	\$ 1,538,652	\$ 787,271	\$ 640,510	\$ 374,632	\$ 522,025	\$ 3,863,090

The accompanying notes are an integral part of this statement.

City of Fremont
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

For the year ended June 30, 2008

Net change in fund balances—total governmental funds \$ (482,049)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities, these costs are depreciated and amortized over their estimated useful lives, respectively.

Depreciation and amortization expense	\$ (851,314)	
Capital outlay	<u>1,410,553</u>	559,239

Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		72,321
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Accrued interest on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.		500
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Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.		(7,084)
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Governmental funds recognize special assessments as revenue as they become current; however, they are recognized in full when levied in the Statement of Net Assets.		(31,222)
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Internal service funds are used by management to charge the costs of certain activities to individual funds. The net change of the internal service funds is reported with governmental activities.		<u>68,750</u>
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Change in net assets of governmental activities		<u><u>\$ 180,455</u></u>
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The accompanying notes are an integral part of this statement.

City of Fremont
STATEMENT OF NET ASSETS
 Proprietary Funds
 June 30, 2008

ASSETS

	Business-type Activities - Enterprise funds			Governmental Activities - Internal service fund
	Sewer	Water	Total	
CURRENT ASSETS				
Cash and investments	\$ 1,692,162	\$ 2,435,385	\$ 4,127,547	\$ 681,943
Accounts receivable	152,336	187,707	340,043	-
Total current assets	1,844,498	2,623,092	4,467,590	681,943
NONCURRENT ASSETS				
Capital assets				
Land	228,972	11,726	240,698	-
Utility systems	9,116,571	5,384,431	14,501,002	-
Equipment	100,418	35,286	135,704	2,493,914
Less accumulated depreciation	(4,237,711)	(1,676,435)	(5,914,146)	(1,561,060)
Total noncurrent assets	5,208,250	3,755,008	8,963,258	932,854
Total assets	7,052,748	6,378,100	13,430,848	1,614,797
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Bonds and other obligations, due within one year	3,000	8,000	11,000	-
NONCURRENT LIABILITIES				
Bonds and other obligations, less amounts due within one year	2,732	13,037	15,769	-
Total liabilities	5,732	21,037	26,769	-
NET ASSETS				
Invested in capital assets, net of related debt	5,208,250	3,755,008	8,963,258	932,854
Unrestricted	1,838,766	2,602,055	4,440,821	681,943
Total net assets	\$ 7,047,016	\$ 6,357,063	13,404,079	\$ 1,614,797
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			24,103	
Net assets of business-type activities			\$ 13,428,182	

The accompanying notes are an integral part of this statement.

City of Fremont
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
Proprietary Funds
For the year ended June 30, 2008

	Business-type Activities - Enterprise funds			Governmental Activities - Internal service fund
	Sewer	Water	Total	
REVENUES				
Charges for services	\$ 490,035	\$ 693,143	\$ 1,183,178	\$ 448,593
OPERATING EXPENSES				
Administration	83,554	83,309	166,863	30,831
Operations	264,595	293,882	558,477	173,591
Depreciation	230,545	88,973	319,518	213,601
Total operating expenses	578,694	466,164	1,044,858	418,023
Operating income (loss)	(88,659)	226,979	138,320	30,570
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	56,475	81,417	137,892	22,010
Connection fees	-	2,100	2,100	-
Gain on sale of capital assets	-	-	-	20,000
Interest expense	-	-	-	(2,296)
Total nonoperating revenues (expenses)	56,475	83,517	139,992	39,714
Income (loss) before transfers	(32,184)	310,496	278,312	70,284
Transfers in	48,469	27,981	76,450	-
Change in net assets	16,285	338,477	354,762	70,284
Net assets at July 1, 2007	7,030,731	6,018,586		1,544,513
Net assets at June 30, 2008	\$ 7,047,016	\$ 6,357,063		\$ 1,614,797
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			1,535	
Change in net assets of business-type activities			\$ 356,297	

The accompanying notes are an integral part of this statement.

City of Fremont
STATEMENT OF CASH FLOWS
Proprietary Funds
For the year ended June 30, 2008

	Business-type Activities - Enterprise funds			Governmental Activities - Internal Service Fund
	Sewer	Water	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 495,538	\$ 691,287	\$ 1,186,825	\$ 14,975
Receipts from interfund services provided	2,020	9,737	11,757	433,618
Payments to suppliers	(82,129)	(152,708)	(234,837)	(173,591)
Payments to employees	(222,290)	(207,903)	(430,193)	(31,210)
Payment for interfund services used	(57,313)	(26,308)	(83,621)	-
Net cash provided by operating activities	135,826	314,105	449,931	243,792
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Transfers in	48,469	27,981	76,450	-
Connection fees	-	2,100	2,100	-
Purchases of capital assets	(21,495)	(16,324)	(37,819)	(166,260)
Principal paid on capital debt	-	-	-	(55,893)
Interest paid on capital debt	-	-	-	(2,296)
Proceeds from sale of capital assets	-	-	-	20,000
Net cash used for capital and related financing activities	26,974	13,757	40,731	(204,449)
CASH FLOW FROM INVESTING ACTIVITIES				
Investment earnings	56,475	81,417	137,892	22,010
Net increase in cash and investments	219,275	409,279	628,554	61,353
Cash and investments at July 1, 2007	1,472,887	2,026,106	3,498,993	620,590
Cash and investments at June 30, 2008	\$ 1,692,162	\$ 2,435,385	\$ 4,127,547	\$ 681,943
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ (88,659)	\$ 226,979	\$ 138,320	\$ 30,570
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation expense	230,545	88,973	319,518	213,601
Change in assets and liabilities				
Accounts receivable	7,523	7,881	15,404	-
Accounts payable	(5,573)	(6,020)	(11,593)	-
Accrued liabilities	(8,010)	(3,708)	(11,718)	(379)
Net cash provided by operating activities	\$ 135,826	\$ 314,105	\$ 449,931	\$ 243,792

The accompanying notes are an integral part of this statement.

City of Fremont
STATEMENT OF FIDUCIARY NET ASSETS
Fiduciary Funds
June 30, 2008

	<u>Agency Fund</u>
ASSETS	
Cash and investments	\$ 64,065
Receivables	888
Due from other governmental units	<u> 300</u>
Total assets	<u><u>\$ 65,253</u></u>
 LIABILITIES	
Accounts payable	\$ 6,701
Due to other governmental units	<u> 58,552</u>
Total liabilities	<u><u>\$ 65,253</u></u>

The accompanying notes are an integral part of this statement.

City of Fremont
STATEMENT OF NET ASSETS
Discretely Presented Component Units
June 30, 2008

ASSETS

	Downtown Development Authority	Local Development Finance Authority	Fremont Community Joint Planning Commission	Total
CURRENT ASSETS				
Cash and investments	\$ 4,500	\$ 111,014	\$ 29,579	\$ 145,093
Due from other governmental units	<u>60,975</u>	<u>-</u>	<u>-</u>	<u>60,975</u>
Total assets	65,475	111,014	29,579	206,068

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES				
Accounts payable and accrued liabilities	<u>14,554</u>	<u>-</u>	<u>3,132</u>	<u>17,686</u>
NET ASSETS				
Unrestricted	\$ <u><u>50,921</u></u>	\$ <u><u>111,014</u></u>	\$ <u><u>26,447</u></u>	\$ <u><u>188,382</u></u>

The accompanying notes are an integral part of this statement.

City of Fremont
STATEMENT OF ACTIVITIES
Discretely Presented Component Units
For the year ended June 30, 2008

<i>Functions/Programs</i>	Net (Expense) Revenue and Changes in Net Assets						
	Expenses	Program Revenue		Downtown Development Authority	Local Development Finance Authority	Fremont Community Joint Planning Commission	Total
		Charges for services	Operating grants and contributions				
Downtown Development Authority							
Public works	\$ 101,728	\$ 13,465	\$ 150,058	\$ 61,795	\$ -	\$ -	\$ 61,795
Community and economic development	344,465	-	111,576	(232,889)	-	-	(232,889)
Total Downtown Development Authority	446,193	13,465	261,634	(171,094)	-	-	(171,094)
Local Development Finance Authority							
Public works	91,500	-	-	-	(91,500)	-	(91,500)
Fremont Community Joint Planning Commission							
Community and economic development	63,435	-	70,187	-	-	6,752	6,752
Total discretely presented component units	<u>\$ 601,128</u>	<u>\$ 13,465</u>	<u>\$ 331,821</u>	(171,094)	(91,500)	6,752	(255,842)
General revenues							
Property taxes				170,235	66,500	-	236,735
Unrestricted investment earnings				192	4,859	1,003	6,054
Miscellaneous				32	-	-	32
Gain on sale of capital assets				-	3,932	-	3,932
Total general revenues				<u>170,459</u>	<u>75,291</u>	<u>1,003</u>	<u>246,753</u>
Change in net assets				(635)	(16,209)	7,755	(9,089)
Net assets at July 1, 2007				<u>51,556</u>	<u>127,223</u>	<u>18,692</u>	<u>197,471</u>
Net assets at June 30, 2008				<u>\$ 50,921</u>	<u>\$ 111,014</u>	<u>\$ 26,447</u>	<u>\$ 188,382</u>

The accompanying notes are an integral part of this statement.

City of Fremont
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Fremont (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Reporting Entity

The City is a municipal corporation governed by an elected mayor and five-member City Council and is administered by a city manager appointed by the City Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government. Each discretely presented component unit has a June 30 fiscal year end unless otherwise noted.

Blended Component Unit

Building Authority. The Building Authority is appointed by the City Council and its activity is dependent on City Council actions. The Building Authority is reported as if it were part of the primary government because its sole purpose is to finance the construction of the City's public buildings. The Authority's activity is reported in the financial statements as a debt service fund.

Discretely Presented Component Units

Downtown Development Authority (DDA). The Authority's sole purpose is the collection of tax increment revenues, the issuance and repayment of debt and the construction of public facilities to promote and facilitate economic growth in the DDA district. Board members of the DDA are appointed by the City, and the Authority is fiscally dependent on the City since the Council approves the DDA budget and must approve any debt issuance. The DDA is presented as a governmental fund type.

Local Development Financing Authority (LDFA). The Authority's sole purpose is the collection of tax increment revenues, the issuance and repayment of debt and construction of public facilities in the LDFA district to promote and facilitate economic growth in the City. Board members of the LDFA are appointed by the City and the Authority is fiscally dependent on the City since the Council approves the LDFA budget and must approve any debt issuance. The LDFA is presented as a governmental fund type.

Fremont Community Joint Planning Commission (Commission). The Commission is comprised of the City, Dayton Township, and Sheridan Charter Township. The Commission's purpose is to enable its members to cooperate on planning and zoning issues. Board members of the Commission are appointed by each of its members with the City appointing five of the thirteen total board members. All three members must approve the Commission's budget and any debt issuance. The funds and financial statements of the Commission are managed by the City. The Commission is presented as a governmental fund type.

City of Fremont
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The City does not allocate indirect costs.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

City of Fremont
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Streets Fund is used to account for gas and weight tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of major streets within the City.

The Local Improvement Fund is used to account for amounts collected and receivable in conjunction with various special assessments for several City construction projects.

The Capital Projects Fund is used to account for the expenditure of the City's funds for major capital projects.

The City reports the following two major proprietary funds:

The Sewer Fund accounts for user charges, operating expenses and debt service of the City's sewer system.

The Water Fund accounts for user charges, operating expenses and debt service of the City's water system.

Additionally, the City reports the following fund types:

Internal Service Funds account for equipment management services provided to other funds of the government on a cost reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

City of Fremont
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The City reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the City intends to hold the investment until maturity.

The City has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the City to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers' acceptances, state-approved investment pools and certain mutual funds.

The component units' cash and investments are maintained within the City's investment pool.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

City of Fremont
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Receivables and Payables—Continued

All trade and property tax receivables are shown net of allowance for uncollectibles.

The City bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied on each July 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following March 1 are turned over by the City to the County for collection. The County advances the City all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the City. The City recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2007 state taxable value for real/personal property of the City totaled approximately \$144,159,000 of which approximately \$5,876,000 was captured by the DDA and approximately \$2,309,000 was captured by the LDFA. The ad valorem taxes levied consisted of 14 mills for the City's operating purposes. These amounts are recognized in the General Fund with captured amounts shown in the DDA and LDFA component units.

Restricted Assets

Certain proceeds of the 2006 Capital Improvement Bonds are classified as restricted assets on the statement of net assets because they are maintained in a separate bank account and their use is limited by applicable bond covenants.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include all such items regardless of their acquisition date or amount. The City was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year).

City of Fremont
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Capital Assets—Continued

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings and improvements	10-50
Infrastructure	20
Utility systems	40-67
Vehicles and equipment	3-30

Compensated Absences

City employees are granted vacation and sick leave in varying amounts based on length of service and employee group. Unused vacation and sick leave days are paid to employees upon termination under limits that vary by employee group. The liability for these compensated absences is accrued when incurred in the government-wide and proprietary fund financial statements. The current portion of this liability is estimated based on historical trends. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

City of Fremont
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental. All annual appropriations lapse at fiscal year end.

The City follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to the third Monday of May, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. A public hearing is conducted at the City Hall to obtain taxpayer comments.
- c. Not later than the second regular meeting in June, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the City Council. All appropriations lapse at year end.

The appropriated budget is prepared by fund, function and department. The City Manager may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. The City Council made several supplemental budgetary appropriations throughout the year.

Excess of Expenditures Over Appropriations

During the year ended June 30, 2008, actual expenditures exceeded appropriations for executive by \$62,781 and building and grounds by \$19,320 in the General Fund. Actual expenditures exceeded appropriations for transfers out by \$33,112 in the Local Improvement Fund. These overexpenditures were funded with available fund balance.

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2008, the City had the following investments:

Investment Type	<u>Fair value</u>	<u>Weighted average maturity (Months)</u>	<u>Moody's</u>	<u>Percent</u>
Money market mutual fund	\$ 595,318	2	not rated	15.0 %
External investment pool	62,715	1	not rated	1.0
External investment pool	2,990,833	2	AAA	74.0
Negotiable certificates of deposit	298,052	60	not rated	7.0
Mortgage backed securities	114,118	40	AAA	3.0
Total fair value	<u>\$ 4,061,036</u>			<u>100.0 %</u>
Portfolio weighted average maturity		<u>7</u>		

City of Fremont
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE C—DEPOSITS AND INVESTMENTS—Continued

The City voluntarily invests certain excess funds in external investment pools (Pools). The Pools are an external investment pool of “qualified” investments for Michigan municipalities. The Pool is not regulated nor registered with the SEC. The fair value of the City's investments is the same as the value of the Pool.

Interest rate risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices.

Concentration of credit risk. The City does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the City investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2008, \$4,403,555 of the City's bank balance of \$5,139,525 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The City does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The City is not authorized to invest in investments which have this type of risk.

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 3,103,551	\$ 92,126	\$ -	\$ 3,195,677
Construction in progress	757,644	1,036,479	1,487,212	306,911
Total capital assets, not being depreciated	3,861,195	1,128,605	1,487,212	3,502,588

City of Fremont
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE D—CAPITAL ASSETS—Continued

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Governmental activities:—Continued				
Capital assets, being depreciated:				
Land improvements	\$ 699,071	\$ 27,988	\$ -	\$ 727,059
Buildings and improvements	4,010,848	212,046	-	4,222,894
Vehicles and equipment	3,119,195	201,549	110,000	3,210,744
Infrastructure	<u>11,692,486</u>	<u>1,493,837</u>	<u>770,276</u>	<u>12,416,047</u>
Total capital assets, being depreciated	19,521,600	1,935,420	880,276	20,576,744
Less accumulated depreciation:				
Land improvements	159,791	35,640	-	195,431
Buildings and improvements	1,916,135	138,675	-	2,054,810
Vehicles and equipment	1,785,781	280,832	110,000	1,956,613
Infrastructure	<u>5,434,780</u>	<u>606,079</u>	<u>770,276</u>	<u>5,270,583</u>
Total accumulated depreciation	<u>9,296,487</u>	<u>1,061,226</u>	<u>880,276</u>	<u>9,477,437</u>
Total capital assets, being depreciated, net	<u>10,225,113</u>	<u>874,194</u>	<u>-</u>	<u>11,099,307</u>
Capital assets, net	<u>\$ 14,086,308</u>	<u>\$ 2,002,799</u>	<u>\$ 1,487,212</u>	<u>\$ 14,601,895</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 240,698	\$ -	\$ -	\$ 240,698
Construction in progress	<u>6,688</u>	<u>-</u>	<u>6,688</u>	<u>-</u>
Total capital assets, not being depreciated	247,386	-	6,688	240,698
Capital assets, being depreciated:				
Buildings and improvements	3,487,519	-	-	3,487,519
Utility systems	10,968,976	44,507	-	11,013,483
Equipment	<u>135,704</u>	<u>-</u>	<u>-</u>	<u>135,704</u>
Total capital assets, being depreciated	14,592,199	44,507	-	14,636,706

City of Fremont
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE D—CAPITAL ASSETS—Continued

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Business-type activities:—Continued				
Less accumulated depreciation:				
Buildings and improvements	\$ 2,847,555	\$ 87,367	\$ -	\$ 2,934,922
Utility systems	2,619,722	229,879	-	2,849,601
Equipment	<u>127,351</u>	<u>2,272</u>	<u>-</u>	<u>129,623</u>
Total accumulated depreciation	<u>5,594,628</u>	<u>319,518</u>	<u>-</u>	<u>5,914,146</u>
Total capital assets, being depreciated, net	<u>8,997,571</u>	<u>(275,011)</u>	<u>-</u>	<u>8,722,560</u>
Capital assets, net	<u>\$ 9,244,957</u>	<u>\$ (275,011)</u>	<u>\$ 6,688</u>	<u>\$ 8,963,258</u>

Depreciation

Depreciation expense has been charged to functions as follows:

Governmental activities:

General government	\$ 99,407
Public safety	34,696
Public works	634,444
Community and economic development	5,637
Culture and recreation	73,441
Internal Service Fund depreciation is charged to the various programs based on their usage of the assets	<u>213,601</u>
	<u>\$ 1,061,226</u>

Business-type activities:

Sewer	\$ 230,545
Water	<u>88,973</u>
	<u>\$ 319,518</u>

City of Fremont
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE E—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Business-type activities				
Bond issuance costs	\$ 35,114	\$ -	\$ -	\$ 35,114
Less accumulated amortization	1,571	3,689	-	5,260
Bond issuance costs, net	<u>\$ 33,543</u>	<u>\$ (3,689)</u>	<u>\$ -</u>	<u>\$ 29,854</u>

Amortization

Amortization expense has been charged to interest.

NOTE F—INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of June 30, 2008 is as follows:

Advances to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
Local Improvement Fund	General Fund	\$ 48,154	Operational loan

Interfund transfers:

Transfers in:							
	General Fund	Capital Projects Fund	Water Fund	Sewer Fund	Other governmental funds	Total	Purpose
Transfers out:							
General Fund	\$ -	\$ 21,000	\$ -	\$ -	\$ 43,550	\$ 64,550	Capital projects
Major Streets							
Fund	-	35,100	-	-	57,500	92,600	Capital projects
Local Improvement							
Fund	7,742	-	27,981	48,469	-	84,192	Capital projects
Other governmental							
funds	38,174	59,000	-	-	-	97,174	Operations and capital projects
	<u>\$ 45,916</u>	<u>\$ 115,100</u>	<u>\$ 27,981</u>	<u>\$ 48,469</u>	<u>\$ 101,050</u>	<u>\$ 338,516</u>	

City of Fremont
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE F—INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS—Continued

Component unit transactions:

During the year the DDA and LDFA contributed significant amounts to the City as follows:

	<u>Governmental activities</u>
Capital activities	
LDFA	\$ 91,500
Operating activities	
DDA	\$ 140,200

NOTE G—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, all of the deferred revenue in the governmental funds was from special assessments, which are unavailable for current year expenditures.

NOTE H—LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the City for the year ended June 30, 2008.

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2008</u>	<u>Due within one year</u>
Governmental activities:					
Capital improvement bonds	\$ 1,675,641	\$ -	\$ 72,321	\$ 1,603,320	\$ 75,000
Installment purchase agreements	55,893	-	55,893	-	-
Compensated absences	<u>224,291</u>	<u>112,701</u>	<u>105,617</u>	<u>231,375</u>	<u>93,000</u>
Governmental activity long-term liabilities	<u>\$ 1,955,825</u>	<u>\$ 112,701</u>	<u>\$ 233,831</u>	<u>\$ 1,834,695</u>	<u>\$ 168,000</u>
Business-type activities:					
Compensated absences	<u>\$ 26,769</u>	<u>\$ 15,797</u>	<u>\$ 15,797</u>	<u>\$ 26,769</u>	<u>\$ 11,000</u>

City of Fremont
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE H—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Governmental activities:

Capital improvement bonds:

\$1,700,000 - 2006 Capital Improvement Bonds due in annual installments of \$75,000 to \$150,000 through November 2021; interest at rates varying from 3.625% to 3.875%	\$ 1,625,000
Less bond discount	<u>(21,680)</u>
	1,603,320
Compensated absences	<u>231,375</u>
	<u><u>\$ 1,834,695</u></u>

For governmental activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

All bonds and loans payable are backed by the full faith and credit of the City.

The City was in compliance in all material respects with all various bond indentures at June 30, 2008.

Annual debt service requirements to maturity for debt outstanding as of June 30, 2008 follows:

Year ending June 30,	Governmental activities	
	Principal	Interest
2009	\$ 75,000	\$ 59,478
2010	75,000	56,759
2011	100,000	53,588
2012	100,000	49,963
2013	100,000	46,338
2014-2018	600,000	171,420
2019-2022	<u>575,000</u>	<u>65,783</u>
	<u><u>\$ 1,625,000</u></u>	<u><u>\$ 503,329</u></u>

City of Fremont
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE I—OTHER INFORMATION

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City manages liability and property risk by participating in the Michigan Municipal Liability and Property Pool (MMLPP), a public entity risk pool providing property and liability coverage to its participating members. The City pays an annual premium to MMLPP for its insurance coverage. The MMLPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence based property coverage to its members by internally insuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Self-Insurance Fund (MMWCSIF), a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to MMWCSIF for its workers' compensation coverage. The MMWCSIF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally insuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City carries commercial insurance for employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

Post-Retirement Health Care

The City has agreed to provide post-retirement health care to certain employees after they retire for three years or until the retiree reaches the age of 65.

As of year-end, there were four retired employees receiving benefits. The City finances the Plan on a pay-as-you-go basis. For the year ended June 30, 2008, the City's post-retirement health care cost under the Plan was approximately \$15,000.

City of Fremont
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE I—OTHER INFORMATION—Continued

Commitments

At June 30, 2008, the City had entered into various agreements for airport improvements of approximately \$1,460,000. The project is being funded with \$1,495,650 in grants and had not substantially started at year end.

At June 30, 2008, the City had entered into various agreements for street improvements of approximately \$1,213,000. The projects had not substantially started at year end.

Leases

The City leases land, vehicles and equipment under noncancelable operating leases. The costs for such leases were approximately \$3,000. The future minimum lease payments for these leases are as follows:

Year ending June 30,	Amount
2009	\$ 6,000
2010	3,700
2011	1,500
	<u>\$ 11,200</u>

The City also received approximately \$23,000 for the year ended June 30, 2008 from noncancelable operating leases for land use and hanger rentals which has been recorded as rental income. The future minimum rental income for these leases is as follows:

Year ending June 30,	Amount
2009	\$ 25,700
2010	30,200
2011	26,200
2012	18,000
2013	800
2014-2018	4,200
2019-2023	4,200
2024-2028	4,200
2029-2033	4,200
2034	900
	<u>\$ 118,600</u>

City of Fremont
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE J—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

Pension Plan

Plan Description. The City of Fremont is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS). The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the City of Fremont. A copy of the complete financial report and required supplemental information can be obtained by writing to:

City of Fremont
101 E. Main Street
Fremont, MI 49412

Funding Policy. Plan members are not required to contribute to the plan. The City is required to contribute at an actuarially-determined rate; the current rate varies from 12.99 to 20.02 percent of annual covered payroll depending upon position. The contribution requirements of plan members and the Township are established and may be amended by MERS.

Annual Pension Cost. For the year ended June 30, 2008, the City's annual pension cost was approximately \$271,000 was equal to the City's required and actual contribution.

Three-Year Trend Information for MERS

<u>Year ended</u>	<u>Approximate Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06/30/06	\$ 230,000	100 %	\$ -
06/30/07	243,000	100	-
06/30/08	271,000	100	-

The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2005 included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 0 percent to 4.5 percent, and (c) 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2007 was 28 years which will be reduced by one year in each of the next eight valuations until reaching 20 years after which the 20 year period will be reestablished with each annual actuarial valuation.

City of Fremont
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE J—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS—Continued

Pension Plan—Continued

Funded Status and Funding Progress. As of December 31, 2007, the most recent actuarial valuation date, the plan was 74 percent funded. The actuarial accrued liability for benefits was approximately \$7,815,000, and the actuarial value of assets was approximately \$5,809,000, resulting in an unfunded actuarial accrued liability (UAAL) of approximately \$2,006,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,382,000, and the ratio of the UAAL to the covered payroll was 145 percent.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE K—ECONOMIC DEPENDENCY

The City's General, Water and Sewer funds have a significant economic dependence on a local corporation. During the year ended June 30, 2008, the corporation's billings for property taxes approximated 25 percent of total property taxes in the General Fund and the corporation's billings for utilities approximated 57 and 10 percent of total billings in the Water Fund and Sewer Fund, respectively.

NOTE L—SUBSEQUENT EVENTS

Subsequent to year end, the City entered into contracts of approximately \$169,000 for water tower improvements, upgrades of approximately \$121,000 for improvements to the Fremont Industrial Park, and approximately \$264,000 for milling and resurfacing of various streets.

REQUIRED SUPPLEMENTARY INFORMATION

City of Fremont
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended June 30, 2008

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 2,017,760	\$ 2,017,760	\$ 1,980,882	\$ (36,878)
Licenses and permits	38,000	38,000	40,318	2,318
Intergovernmental revenues				
State	388,900	418,900	416,075	(2,825)
Local	39,870	39,870	30,000	(9,870)
Charges for services	485,100	497,100	504,586	7,486
Fines and forfeitures	29,000	29,000	28,973	(27)
Investment earnings	110,000	110,000	96,059	(13,941)
Other	192,500	192,500	188,881	(3,619)
Total revenues	3,301,130	3,343,130	3,285,774	(57,356)
EXPENDITURES				
Current				
General government				
Legislative	15,200	15,200	13,028	2,172
Executive	84,100	84,100	146,881	(62,781)
Elections	8,200	8,200	4,859	3,341
General administration	3,720	3,720	3,727	(7)
Clerk	98,000	98,000	93,707	4,293
Treasurer	59,820	68,320	66,815	1,505
Board of review	900	900	760	140
Assessor	46,350	51,334	50,772	562
Cemetery	78,900	78,900	78,266	634
Attorney	20,000	20,000	17,164	2,836
Building and grounds	115,800	115,800	135,120	(19,320)
Public relations	37,000	37,000	28,368	8,632
Public safety				
Police department	622,300	612,300	611,105	1,195
Fire department	289,270	289,270	270,394	18,876
Public works				
Streets, street lighting and sidewalks	315,000	325,000	323,900	1,100
Sanitation	229,000	234,180	240,561	(6,381)
Community and economic development				
Planning and zoning	83,521	83,521	79,635	3,886
Other	30,400	30,400	25,946	4,454
Culture and recreation				
Parks and recreation	118,500	118,500	117,541	959
Other governmental functions				
Employee fringe benefits and other items	627,000	620,940	617,413	3,527
Airport operations	48,600	48,600	50,768	(2,168)
Parking systems	52,000	52,000	52,000	-
Debt service				
Interest and fees	2,960	2,960	2,960	-
Capital outlay	75,000	372,165	351,675	20,490
Total expenditures	3,061,541	3,371,310	3,383,365	(12,055)
Excess of revenues over (under) expenditures	239,589	(28,180)	(97,591)	(69,411)
OTHER FINANCING SOURCES (USES)				
Transfers in	64,300	64,300	45,916	(18,384)
Transfers out	(101,946)	(64,550)	(64,550)	-
Total other financing sources (uses)	(37,646)	(250)	(18,634)	(18,384)
Net change in fund balance	\$ 201,943	\$ (28,430)	(116,225)	\$ (87,795)
Fund balance at July 1, 2007			1,654,877	
Fund balance at June 30, 2008			\$ 1,538,652	

City of Fremont
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
Major Streets Fund
For the year ended June 30, 2008

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental revenues - State	\$ 270,000	\$ 270,000	\$ 293,884	\$ 23,884
Investment earnings	15,000	15,000	26,102	11,102
Other	<u>56,000</u>	<u>56,000</u>	<u>45,873</u>	<u>(10,127)</u>
Total revenues	341,000	341,000	365,859	24,859
EXPENDITURES				
Current				
Public works	<u>175,100</u>	<u>175,100</u>	<u>154,711</u>	<u>20,389</u>
Excess of revenues over expenditures	165,900	165,900	211,148	45,248
OTHER FINANCING USES				
Transfers out	<u>(152,600)</u>	<u>(152,600)</u>	<u>(92,600)</u>	<u>60,000</u>
Net change in fund balance	\$ <u>13,300</u>	\$ <u>13,300</u>	118,548	\$ <u>105,248</u>
Fund balance at July 1, 2007			<u>668,723</u>	
Fund balance at June 30, 2008			\$ <u>787,271</u>	

City of Fremont
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
Local Improvement Fund
For the year ended June 30, 2008

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Investment earnings	\$ 24,960	\$ 24,960	\$ 34,177	\$ 9,217
Other	-	-	49,429	49,429
Total revenues	24,960	24,960	83,606	58,646
EXPENDITURES				
Current				
Community and economic development	-	13,465	13,465	-
Excess of revenues over expenditures	24,960	11,495	70,141	58,646
OTHER FINANCING USES				
Transfers out	(123,650)	(51,080)	(84,192)	(33,112)
Net change in fund balance	\$ (98,690)	\$ (39,585)	(14,051)	\$ 25,534
Fund balance at July 1, 2007			654,561	
Fund balance at June 30, 2008			\$ 640,510	

City of Fremont
Required Supplemental Information
SCHEDULE OF FUNDING PROGRESS FOR MERS PENSION PLAN
For the year ended June 30, 2008

(Dollar amounts in thousands)

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
12/31/05	\$ 5,098	\$ 7,016	\$ (1,918)	73 %	\$ 1,332	144 %
12/31/06	5,457	7,480	(2,023)	73	1,331	152
12/31/07	5,809	7,815	(2,006)	74	1,382	145

OTHER SUPPLEMENTAL INFORMATION

City of Fremont
COMBINING BALANCE SHEET
Other Governmental Funds
June 30, 2008

	Total other governmental funds	Special Revenue			Debt Service	Permanent Cemetery Perpetual Care
		Local Streets	Arboretum Park	Building Authority	Construction Bond	
ASSETS						
Cash and investments	\$ 493,884	\$ 183,883	\$ 2,378	\$ -	\$ 3,402	\$ 304,221
Due from other governmental units	<u>28,141</u>	<u>28,141</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u><u>\$ 522,025</u></u>	<u><u>\$ 212,024</u></u>	<u><u>\$ 2,378</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,402</u></u>	<u><u>\$ 304,221</u></u>
LIABILITIES AND FUND BALANCES						
Fund balances						
Reserved for:						
Debt service	\$ 3,402	\$ -	\$ -	\$ -	\$ 3,402	\$ -
Perpetual care	304,221	-	-	-	-	304,221
Unreserved						
Undesignated	<u>214,402</u>	<u>212,024</u>	<u>2,378</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>522,025</u>	<u>212,024</u>	<u>2,378</u>	<u>-</u>	<u>3,402</u>	<u>304,221</u>
Total liabilities and fund balances	<u><u>\$ 522,025</u></u>	<u><u>\$ 212,024</u></u>	<u><u>\$ 2,378</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,402</u></u>	<u><u>\$ 304,221</u></u>

City of Fremont
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Other Governmental Funds
For the year ended June 30, 2008

	Total other governmental funds	Special Revenue		Debt Service		Permanent Cemetery Perpetual Care
		Local Streets	Arboretum Park	Building Authority	Construction Bond	
REVENUES						
Intergovernmental revenues						
State	\$ 98,216	\$ 98,216	\$ -	\$ -	\$ -	\$ -
Local	205,049	-	65,049	-	140,000	-
Charges for services	7,935	-	-	-	-	7,935
Investment earnings	18,169	5,056	323	1,022	643	11,125
Total revenues	329,369	103,272	65,372	1,022	140,643	19,060
EXPENDITURES						
Current						
Public works	84,107	84,107	-	-	-	-
Community and economic development	69,283	-	38,000	31,283	-	-
Debt service						
Principal	75,000	-	-	-	75,000	-
Interest and fees	62,968	-	-	-	62,968	-
Total expenditures	291,358	84,107	38,000	31,283	137,968	-
Excess of revenues over (under) expenditures	38,011	19,165	27,372	(30,261)	2,675	19,060
OTHER FINANCING SOURCES (USES)						
Transfers in	101,050	101,050	-	-	-	-
Transfers out	(97,174)	(59,000)	(27,049)	-	-	(11,125)
Total other financing sources (uses)	3,876	42,050	(27,049)	-	-	(11,125)
Net change in fund balances	41,887	61,215	323	(30,261)	2,675	7,935
Fund balances at July 1, 2007	480,138	150,809	2,055	30,261	727	296,286
Fund balances at June 30, 2008	\$ 522,025	\$ 212,024	\$ 2,378	\$ -	\$ 3,402	\$ 304,221

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

October 20, 2008

City Council
City of Fremont
Fremont, Michigan

In planning and performing our audit of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fremont as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Fremont's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Fremont's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Fremont's internal control.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the attached deficiencies in internal control that we consider to be significant deficiencies.

This communication is intended solely for the information and use of management, the City Council, and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.



SIGNIFICANT DEFICIENCIES

Recommendation 1: A review and approval of the City's monthly bank reconciliations should be performed.

Presently, the City's monthly bank reconciliations are not reviewed and approved by another City official.

The review and approval of bank reconciliations would reduce the possibility of a bank reconciliation not being done correctly, timely, or agreed to the general ledger and would reduce the opportunity for errors or misappropriations of funds to go undetected.

Recommendation 2: The segregation of duties within the investment function should be improved.

During our audit, we noted that the same individual is responsible for oversight of investments, making day-to-day investment decisions, opening and reviewing investment statements, transferring funds between accounts, and recording investment activity in the City's accounting records.

The investment function should be segregated to the extent possible by including another City official in the process, which would reduce the possibility of inadvertent errors or misappropriation of funds going undetected.